

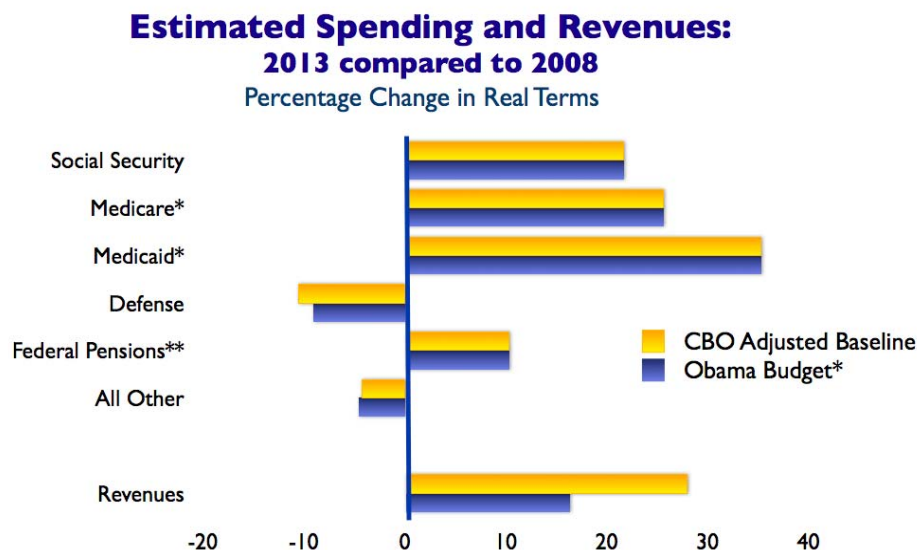
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Peter G. Peterson Foundation Congratulates President-elect Barack Obama

We congratulate President-elect Barack Obama on his historic victory and wish him every success. As he leads the country through our current economic crisis, he has the opportunity to show that good government is fiscally responsible government.

Our new President must juggle competing demands in a tough budget environment. Most of the government's resources are already committed. Per the latest available data, the government is \$53 trillion in the hole thanks to the nation's current debts and huge off-balance sheet obligations such as unfunded Social Security and Medicare benefits for the coming surge of retiring baby boomers.

To carve out room in the budget so that government can reflect today's realities, President-elect Obama will have to align revenues and spending, reform outdated entitlement programs and tax policies, and bring soaring health care costs under control.



SOURCE: PGPF based upon Congressional Budget Office data (September 2008), US Budget Watch *Promises, Promises* (September 2008), Tax Policy Center analyses (September 2008), and campaign website (as of September 30, 2008). CBO baseline adjusted to reflect drawdown in troop deployment in Iraq and Afghanistan to 30,000 by 2010.

* Obama budget does not reflect impact of overall health care reform.

** Includes civilian and military pensions and veterans' benefits.

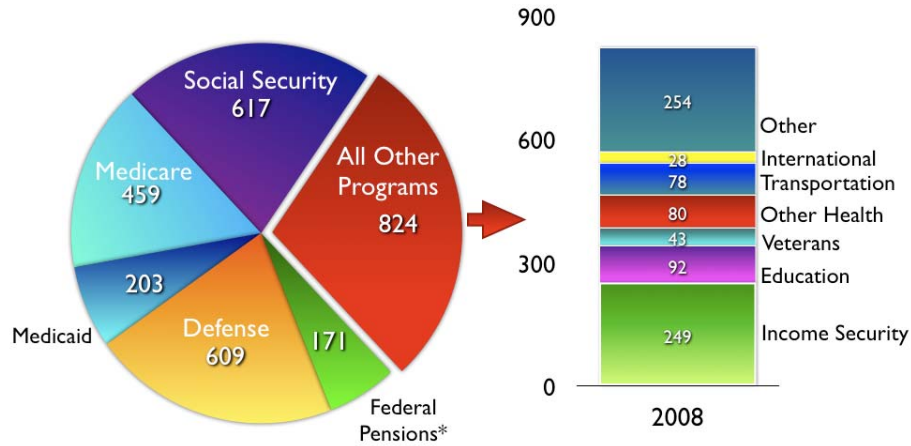
Even if we balance the budget in the short term, our \$53 trillion tab will grow by \$2-\$3 trillion per year:

- Entitlement and other mandatory spending will continue to crowd out key investments in our future, including R&D, innovation in education, and critical infrastructure.
- The nation's AAA credit rating eventually will suffer.
- Foreign lenders will expand their influence over our economic and foreign policy-making.

Our fiscal policies are becoming ever more inflexible, leaving little room in the budget for future needs. Last year, 71% of federal spending for programs went to just a few necessities—Social Security, Medicare, Medicaid, national defense, and civilian and veterans’ retirement benefits. Spending on all other federal activities—including education, transportation, income assistance programs, science and research programs, homeland security, law enforcement, and programs that protect our environment and our health and safety—represented only 29% of the total.

Federal Spending for Programs in 2008

In billions of dollars



SOURCE: PGPF based upon Congressional Budget Office data (September 2008)

* Includes Veterans' payments

What makes the budget increasingly inflexible is the automatic growth of Social Security, Medicare, and Medicaid, together with popular resistance to higher taxes. Deficits and debt provide some short-term relief, but borrowing is costly today and mortgages our future. The government already spends more on net interest than it does on Medicaid.

The incoming Obama Administration can combine timely, targeted and temporary stimulus to get our economy back on track with some key steps toward real, lasting reform—including but not limited to the re-instatement of statutory budget controls after the economy turns around, and the creation of a bipartisan commission to examine all our current fiscal policies and recommend comprehensive changes to the new President and Congress.

America can rescue itself. Now is the time to start.

About the Peter G. Peterson Foundation:

Founded by the senior chairman of The Blackstone Group with a commitment of at least \$1 billion, the Foundation is dedicated to increasing public awareness of the nature and urgency of key fiscal challenges threatening America's future, and to accelerating action on them. To address these challenges successfully, we work to bring Americans together to find sensible, long-term solutions that transcend age, party lines and ideological divides in order to achieve real results. For more information, see www.PGPF.org.

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